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• Dairy Programs Foster World Milk Surplus

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Raw sugar being unloaded at the bulk sugar terminal in Mackay Harbor, Queensland, Australia. The outlook for the Australian sugar industry indicates higher production and low prices. See article, page 6.

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Dairy Programs Still Foster Rising World Milk Output

By EDWARD KARPOFF
Foreign Commodity Analysis—Dairy, Livestock, and Poultry
Foreign Agricultural Service

A herd of dairy cattle on a Canadian farm.

AN ANNOYING problem in agriculture today is the accumulating stockpile of dairy products—particularly nonfat dry milk—in major producing nations. After years of irresolution, this problem is now being widely discussed and cautiously attacked. However, government dairy programs of the leading producer-exporters aim both at providing acceptable producer incomes and ensuring adequate supplies of milk for consumers. It is difficult to serve both purposes simultaneously.

The leading Western nations among these producer-exporters are the United States, Canada, the countries of the European Community (EC), Australia, and New Zealand. Although accounting for less than half the world's total milk output, these nations produce most of the dairy products moving in commercial world trade. And they supply almost all the nonfat dry milk (NFDM) shipped to developing countries under government and multilateral assistance programs.

They also hold the bulk of world dairy-product stocks. In the case of NFDM, probably more than half of the 2 million metric tons on hand at the end of 1976 were above normal commercial requirements. This 2 million tons is enough to supply world NFDM food needs for half a year. Or, looking at the NFDM surplus merely in terms of imports, stocks are now 2½ times the net 1976 NFDM imports by 31 major countries.

These stocks were largely unchanged in 1976 from levels prevailing at the end of 1975. But that halt to the increase in stocks came only because of widespread drought in Europe and Australia, coupled with intensified efforts to dispose of surpluses.

Under the influence of drought, 1976 milk output among 37 major producers probably gained little, if any, from the 383 million tons produced in 1975. Given more favorable weather, milk production in 1977 will likely return to the long-term upward trend that has been underway for more than a decade,

particularly if governments attempt to compensate for inflation of farmers' costs by awarding target price increases. And if consumers follow past tendencies, they can be expected to react to price gains in milk and butter by cutting back on consumption.

Butter has been especially affected by the consumer's flight to less expensive alternative products. Consumption of it has been in a declining phase since 1973—and even longer in the United States, where 1976 consumption is estimated at 2 kilograms per person, lower than in most European nations.

National governments, meantime, are making some cautious changes in their dairy support programs with the aim of either reducing the incentive to overproduce or using extra-market devices to induce uses that ordinarily would not be commercially feasible.

Most nations are finding that attempts of the latter kind only stem the buildup of dairy surpluses, rather than attack the basic problem. But so far efforts at basic reform have been stymied by a number of roadblocks, not the least of which is the deep social commitment most governments have to their dairy farmers.

In the European Community, for instance, many dairy farmers are still smallholders, whom the EC has obligated itself to protect. Indeed, the entire EC agricultural policy, reflected in the various Common Agricultural Policies (CAP's) is so solidly based on protecting farmers that any radical change in this area could threaten the viability of the Community itself. And with nine countries, marked by differing levels of production and efficiency, each having a say in the formulation of EC farm policies, the tendency is for big issues such as the dairy policy to bog down in endless debate and irreconcilable differences.

The time is coming, however, when the EC will have to make some difficult choices about its dairy policies. For the Community now holds 60 percent of the world's stocks of NFDM, and consumers there may eventually become restive over high retail prices and large Government expenditures toward supporting, storing, and subsidizing dairy products.

A look at current production and policies in the major producers follows:

United States. Following 3 years of static production, milk output in the United States jumped by more than 4 percent in 1976 in response to heavier feeding of concentrates and resultant improvement in milk output per cow. In addition, dairy farmers have tended to maintain herds because of improved milk prices and increased availability of young heifers as replacements.

As a result, U.S. butter output since mid-1976 has been rising in comparison with the year before, bringing an ample supply in contrast to tight supplies early in 1976. Yet because of early-season declines, total 1976 butter production was about the same as the 445,000 tons of 1975.

The late-season gain in output has pushed down U.S. prices for butter, which by October were down 18 cents per pound from the high mid-July level and holding at the new support level of 92.75 cents per pound. This decline has resulted in significant buying of butter in the winter of 1976/77 by the U.S. price-support agency, the Commodity Credit Corporation (CCC), portending an expansion in U.S. butter stocks next year. Through most of 1976, however, stocks still were not in excess of commercial needs.

Production of NFDM, which occurs as an adjunct to butter output, also picked up in late 1976, recording steady monthly increases over year-earlier levels. Nevertheless, the production shortfalls of the early months were not fully offset by the gains later in the year, so the 12-month production of about 430,000 tons was 5 percent below 1975's.

Throughout 1976, wholesale prices for NFDM remained near the support level of 62.4 cents per pound, and CCC stocks at the end of December 1976 totaled 180,000 tons.

Aside from the current tendency toward increased CCC buying of dairy products, U.S. dairy policies in most recent years have not resulted in any sizable buildup of dairy surpluses. In fact, U.S. market prices in early 1976 considerably exceeded the then-existing support price of $8.13 per 100 pounds of milk for manufacturing. Production decisions, made on the basis of then-prevailing market prices, subsequently resulted in large supplies and offerings to CCC at prices consistent with the since-raised (October 1976) support price of $8.26 per 100 pounds.

This price is supported by CCC purchases of dairy products. CCC purchases, of course, are not necessarily all surplus because the U.S. Government needs commodities for school lunches, food aid, and other ongoing programs.

Canada. Following a sharp increase early in 1976, Canadian milk production has turned downward. As a result, the country's output of milk in 1976 probably declined 1 percent from the 1975 total to an estimated 7.7 million tons.

Especially sharp reductions in deliveries of manufacturing milk have led to reduced estimates for Canada's 1976 production of all dairy products. Butter output is believed 12 percent below 1975's, at 112,000 tons, and stocks are estimated down one-fourth.

Output of NFDM, after an upward spurt in early 1976, declined steadily, ending the year off 4 percent from 1975, at 163,000 tons. Yet ending stocks of NFDM, at 170,000 tons, are still almost 20,000 tons above those held at the beginning of 1976.

This downswing in Canada's dairy output follows a strict program to halt the disturbing buildup of Canadian

dairy surpluses. That program involves the use of quotas for deliveries of manufacturing milk in the various provinces of Canada, with confiscatory levies against those deliveries in excess of quota. The quotas must be viewed, however, in the context of the entire dairy program, which works as follows:

Through the Canadian Dairy Commission, the Canadian Government supports the price of industrial (manufacturing) milk, with the 1976/77 target being $11.45 per 100 pounds for within-quota milk. This price, in Canadian dollars,[1] sounds very favorable in comparison with the current $8.26 U.S. support price, but in actuality average net marketplace returns to the producer of industrial milk fall considerably below that level.

"Given more favorable weather, milk production in 1977 will likely return to the long-term upward trend that has been underway for more than a decade."

For one thing, the target is composed of two parts. One (around $8.79) is the return the producer is expected to receive from the market. The other ($2.66) is a direct Federal subsidy for in-quota milk.

In addition, various costs must be deducted. Hauling charges usually run around 38 cents per 100 pounds, and $1.35 per 100 pounds is charged to help defray the cost of storing and exporting dairy surpluses. Deducting these costs brings the targeted net return for in-quota industrial milk down to $9.72, which seems to be about $1.50 higher than the U.S. support of $8.26. However, not only is the target seldom realized (in April-August 1976, the market price was $8.10 rather than the projected $8.79), but there is the additional problem of provincial quotas.

As a condition for the Central Government's support of the 1976/77 dairy program, dairy boards in the respective provinces of Canada accepted marketing quotas and the responsibility for administering them. Those provincial quotas are agreed shares and/or amounts of the national quota, with all provinces except Newfoundland participating.

To coax some of the other provinces into participation, the Canadian Government had to give them special concessions, such as no less than a specified amount as their initial share. This resulted in quotas being freely granted to producers in, say, Nova Scotia at a time when British Columbia's quota was fully allotted and producers' shares of it were changing hands at premium prices.

In all provinces, over-quota production is very unprofitable. Such production does not earn the Federal subsidy of $2.66, and also is subject to a penalty levy of $8.60 per 100 pounds. Combined with normal costs of transport, the penalty levy is completely confiscatory of the value of over-quota milk and can even make such milk a cost to the producer.

As a result, factory production of milk products by October 1976 had plunged 26 percent below the comparable 1975 level, whereas in March 1976 it was 22 percent above the year-earlier level.

This sharp downswing somewhat overstates the decline in industrial milk production because Canadian farmers have learned to keep some of the excess at home. But there is obviously a substantial adjustment going on in response to the new Canadian program.

The price objectives of the Canadian Government are supported by purchases of butter and nonfat dry milk at $1.08 and 68 cents per pound, respectively, compared with U.S. levels of 92.75 and 62.4 cents. This system supplied butter to the Canadian (Ottawa) consumer at about US$1.19 per pound and milk at 49 cents per U.S. quart in early January 1977 compared with $1.42 and 47 cents in the United States.

European Community. Under the impact of the worst drought in recent history, 1976 milk production in the EC probably gained only a slight 1-1.5 percent from the 1975 level to an estimated 99.5 million tons. Dairy industries in France, Belgium-Luxembourg, and the Netherlands were especially hard hit by the drought with many areas there experiencing shortages of forage and early drying and culling of cows. Other EC members were hit to varying degrees by the drought, with only Ireland escaping it completely.

Despite the temporary setback, the EC appears poised to continue its steady advance in milk output. Even in a year of drought, the total dairy herd in 1976 is believed to have declined by less than 1 percent, and farmers got an added production incentive in mid-September when the second step of the 1976 EC dairy price increase became effective. At that time, the target price for milk was raised almost 3 percent, supplementing the March increase of 4.5 percent.

Also, while the EC as a whole is a surplus producer of dairy products, the United Kingdom and Italy are deficit producers, spending sizable amounts of foreign exchange each year for imports of these products. Both nations are determined to boost their milk output and are expected to enjoy some success in their efforts, which, in turn, will serve to aggravate the EC dairy surplus problem.

Further, the Netherlands, Denmark, and Ireland consider their countries to be "optimium areas" for dairy production and plan to increase output in coming years.

The Community, moreover, had little success in reducing dairy surpluses last year. Production of butter is believed to have gained 5.5 percent to 1.8 million tons, and Government-held intervention stocks now stand at around 300,000 tons with the situation expected to worsen in 1977.

"But so far efforts at reform have been stymied by a number of roadblocks, not the least of which is the deep social commitment most governments have to their dairy farmers."

Production of NFDM rose to about 2 million tons, 4 percent above 1975's, and ending-1976 stocks are about the same as the 1.2 million tons prevailing at the start of 1976. Stocks of NFDM would have risen sharply but for extraordinary programs to force this commodity into livestock feed. And such programs have been considered by the United States to be illegal under the General Agreement on Tariffs and

[1] **The value of the Canadian dollar is almost the same as that of the U.S. dollar; on Jan. 21, 1977, it was US$0.9895.**

Trade because they impair U.S. trading rights for soybeans and soy products.

With these stocks, and further increases in its already-large production, the EC is likely to remain the biggest factor in the world dairy surplus as farmers there continue to enjoy the ample protection afforded by the EC CAP for milk and milk products.

"This sharp downswing somewhat overstates the decline in industrial milk production because Canadian farmers have learned to keep some of the excess at home."

Under the CAP, the EC has a farm target price for milk, which it maintains through intervention prices for butter and NFDM and (for Italy only) certain cheeses. The prices are intended to be uniform throughout the Community, except for the United Kingdom and Ireland—recently joined members which are still on a transitional scale. (Denmark, although a new member, has achieved near-parity with the original members.)

Except for the United Kingdom, which is something of a special case, the EC countries do not have classified pricing plans and do not sharply differentiate prices of bottling milk from industrial milk. Thus, the current EC target price—illustratively, $11.00 per 100 pounds in West Germany, $8.50 in Italy—is essentially the target price both for milk for fluid use and for manufacturing.

The EC intervention (support) buying prices for products that relate to milk are (basis Netherlands) $1.38 per pound for butter and 56 cents for NFDM. That for butter is higher than in the United States, and the NFDM price is lower.

In turn, early January 1977 retail prices (The Hague) were $1.55 per pound for butter and 37 cents per quarter for milk, which seem low in relation to the farm milk price.

Still, these prices have been high enough to curb consumption of milk and dairy products. Combined with rising output, the result is accumulation of stocks in the hands of the intervention agencies and high program costs. In 1975, dairy programs cost the EC $1.5 billion, 30 percent of the outlay for its total agricultural programs.

EC attempts to resolve the dairy problem have fallen into two categories: Attempts to manager the surplus and suggestions for structural revision of the dairy industry.

Surplus management includes price concessions on dairy products used by students, the aged, and industrial (baking) outlets that otherwise would not use market-price butter and/or milk powder. The EC also routinely subsidizes the use of both liquid and powdered NFDM in animal feeds and in addition from time to time has had special programs. Domestically, the EC subsidizes storage of dairy products so as to temporarily keep them off weak markets. And the EC subsidizes commercial exports as well as making concessional deliveries to developing countries.

Such subsidies are costly to the EC, annoying to EC competitors, and have been insufficient to keep EC stocks within manageable bounds. In 1973, the EC was forced to sell 440 million pounds of butter to the USSR for about 20 cents per pound in order to bring inventories under control. Since then, a succession of vigorous feed programs for NFDM have only slightly kept ahead of additions to intervention stocks.

For the longer run, EC Commission officials have debated proposals to:

- Levy a tax of about 2.5 percent on farmers' sales of milk.
- Levy a tax of about 10 percent on the price of vegetable and marine fats competing with milkfat.
- Develop new outlets and demands for milk and dairy products, financing such efforts with the proceeds of the two taxes above.
- Cease most national and EC expenditures toward improving efficiency of farms and dairies.
- Pay dairy farmers to convert to other lines of animal husbandry, such as beef production, or to leave dairying altogether.

These proposals have been officially presented by the EC Commission staff, but so far they have not progressed toward adoption.

The mechanisms of the U.S. and EC dairy support systems, with support (target) prices to producers backed up by announced purchase prices for products, are similar. The critical difference between the two is the support level, in relation to the equilibrium price that balances supply and demand.

Oceania. Milk production trends in Australia and New Zealand have taken opposite directions recently despite these countries' similar dairy programs. Australia, whose steadily advancing output of milk and dairy products was curbed by drought in 1976, is seeking to reduce output. New Zealand has welcomed the restoration of full production after a drought some years ago.

The Australian drought—which was centered in the south, including the major dairy State of Victoria—reduced milk output some 3 percent in the year ending June 30, 1976. Another decline of 10 percent is seen for 1976/77. Most of the adjustment in milk use is in the butter-NFDM sector, and, as a result, declines of 18 and 19 percent, respectively, are forecast for 1976/77 butter and NFDM production.

The Australian Government has given emergency assistance to dairy producers hurt by the drought, but not enough to prevent a sizable exodus from this industry. Through mid-1976, Australia had not made headway toward reducing its stocks of NFDM, which as of June 30, 1976, totaled around 64,000 tons, compared with 57,000 at the beginning of the season. However, recent reports indicate that lower NFDM production and aggressive marketing have since led to considerable reduction of the stocks.

"... the EC is likely to remain the biggest factor in the world dairy surplus as farmers there continue to enjoy the ample protection afforded by the EC CAP for milk and milk products."

With an assist from favorable weather and abundant feed supplies, New Zealand's milk output rose by 3 percent to a new high of 6.1 million tons in the year ending May 31, 1976. Another sizable gain is seen for 1976/77.

This means expanded production of butter, which has attracted a greater share of the manufacturing milk at the expense of cheese and is being aggressively promoted in overseas markets. As a result the country expects to produce

Continued on page 16

Australia's Sugar Outlook: Higher Output, Lower Prices

WITH THE RECENT sharp fall in world sugar prices, the outlook for the Australian sugar industry has changed rather dramatically and low prices are expected through the 1977/78 season.

Although Australia's sugar industry is protected somewhat by long-term agreements for a large share of sugar exports and by fixed prices on the home market, total returns will likely be down as over half of the country's export sugar will be subject to free world market prices.

While total returns on sugar have dropped off, production has increased. The 1976/77 harvesting season got off to a good start and total cane production is now estimated to be 24.40 million metric tons, 11 percent higher than in 1975/76.

The total raw sugar output is now forecast at 3.42 million tons compared with 2.93 million in 1975/76, an increase of nearly 17 percent. Area is also up 9 percent to 280,000 hectares.

The extraction rate will also be higher in 1976/77, owing to better harvesting conditions. During the 1975/76 harvest, it took 7.5 tons of cane to yield 1 ton of raw sugar; it is estimated that the rate will be about 7:1 in 1976/77, closer to the long-term average.

The Australian sugar industry also experienced a good production year in 1975/76. However, the final returns to cane growers were under the previous year's record.

The total value of the cane crop (21.96 million tons were crushed) in 1975/76 was placed at $A448 million, compared with $A490.7 million (20.38 million tons crushed) a year earlier. Increasing costs in 1975/76 eroded net returns well below those of the year before.

Out of the total 3.42 million tons of raw sugar forecast to be produced in 1976/77, about 800,000 tons will be needed for Australia's domestic market. The remainder will be available for export. Unless world sugar prices improve, total returns to the sugar industry could be even lower for the 1976/77 crop.

The United States is one of Australia's top sugar export markets. Australia's performance on the U.S. market was expected to improve substantially in the second half of 1976, as total sales to the United States during the first 7 months of the year were only 52,000 tons compared with nearly 180,000 tons for the same period the year before.

Australian exporters claim that cheaper sugar is being offered to U.S. buyers from producers closer to the United States such as Central and South America. Australian sugar sales to the United States in 1975/76 totaled nearly 353,000 tons, while exports in 1974/75 totaled over 389,000 tons.

Exports of bulk raw sugar from Australia in fiscal 1975/76 totaled 1.97 million tons, just slightly over the export total of the previous year. The largest purchaser of Australian sugar was Japan, importing 558,800 tons—twice the amount taken in 1974/75.

Other leading importers in 1975/76 were Canada (380,000 tons), Korea (207,000 tons), Malaysia (199,000 tons), the People's Republic of China (101,000 tons), and Singapore (91,000 tons).

The value of raw sugar exports in 1975/76 was $A585 million compared with $A644.5 million the year before. The average export price per metric ton dropped over 10 percent in 1 year to $A290. The fall in export value was due to the steady fall in world sugar prices that started in early 1975.

Australia's Sugar Board announced in June 1976 that a sale of 150,000 tons of raw sugar had been made to the People's Republic of China (PRC), a traditional importer of Cuban sugar. Thus far, no long-term agreements or contracts have been signed with the PRC, but Australian officials are hopeful that some permanent marketing arrangements can be made.

Starting in 1975, Australia began to sell a significant quantity of its export sugar under long-term bilateral agreements. These agreements now amount to roughly 1.2 million tons.

Australia's molasses production is expected to increase 6.5 percent in 1976 to 660,000 tons, compared with 620,000 tons a year earlier. The main export markets for molasses are the United States, Japan, and New Zealand.

In other industry developments, lobbying for a sugarbeet industry in Tasmania has picked up momentum in recent months.

Tasmania needs a cash crop to replace the falling returns from apples, hops, vegetables, and—more recently—beef. Many of these commodities have lost profitability and the search is on for a good replacement.

Sugarbeet trials in Tasmania have indicated that high yields and good sugar content are possible. These findings have renewed interest in a sugarbeet industry in this area. The latest development was a decision by the Tasmanian Government to finance a feasibility study into the establishment of a sugar industry in that State.

A sugarbeet industry in Tasmania is still somewhat in the distant future, however, as the State's record on new industries has not been very good owing to high production and transportation costs.

THE AUSTRALIAN sugar industry is moving ahead on schedule with its $A200 million sugar mill expansion and modernization program. The program was undertaken primarily to provide the crushing capacity needed to handle the 300,000-ton increase in sugar production authorized in 1975/76.

The expansion program now underway will enable the mills to cope with further expansion in cane areas in future years.

During the 1976/77 Australian sugar season, some mills have experienced production delays owing to difficulties with new crushing equipment. Many mills have already undertaken major expansion programs and have had problems getting production lines to function smoothly.

By late July, however, all mills in Queensland and New South Wales were in full operation and reporting good production performance. As of October 2, 16 million tons of cane had been crushed, representing about two-thirds of the total sugar crop. The sugar content of the cane has been appreciably better thus far in the year.

Construction plans are also underway to expand storage capacity of Queensland's six bulk raw sugar terminals to 2 million tons from their present capacity of 1.5 million tons. The increase in mill capacity and in bulk sugar storage, as well as port development, will involve capital expenditures in the range of at least A$300 million.

The Australian sugar industry has always been highly dependent on exports, and for years has been seeking ways of solving the chronic price instability problem on world sugar markets.

As a result of the recent sharp slump in world sugar prices, Australia has welcomed the decision of the International Sugar Organization to call for a negotiating conference for a new Sugar Agreement in the spring of 1977. Australia has served notice that it will be working for new agreements with substantive economic clauses at the conference.

—Based on a dispatch from
HARLAN J. DIRKS
U.S. Agricultural Attaché, Canberra

Opposite, cultivating sugarcane in Australia.
Above, operating a chopper/harvester in Queensland.

Romania Sets Goals For Boosting Agricultural Development

WITH THE BEGINNING of its new Five-Year Plan (1976-80), Romania is looking forward to upping its agricultural production in several areas that have been plagued by both economic and technical problems. Among the areas targeted for improvement are soybeans, livestock, irrigation, land use, and investment. Other areas, such as cotton and sorghum production, as well as agricultural structure, have a more clouded future.

The Romanian Ministry of Agriculture has optimistically predicted that soybean production will increase during the current Five-Year Plan to such a degree that imports of soybean meal and cake can be eliminated by 1980. In light of the severe drop in soybean area in 1975 (a decline of 49 percent to 122,000 hectares from 239,000 in 1974), this goal seems somewhat unrealistic. Soybean area for 1976 is estimated at 200,000 hectares and production may reach 250,000 metric tons, compared to last year's harvest, estimated to be under 200,000 tons.

The drop in 1975 soybean area has been attributed to several factors: with the price relationship between corn and soybeans favoring corn, many Romanians decided to expand corn area and reduce that of soybeans; floods destroyed some soybean area; and wide fluctuations in soybean yields made soybean cultivation less attractive than other crops.

Most of the soybeans crushed in Romania are crushed in plants designed for sunflowerseed. However, in addition to the soybean crushing plant opened last year in Bucharest, three more soybean crushing facilities are to be constructed during the new Five-Year Plan.

Sunflowers reportedly were planted on roughly 500,000 hectares in 1976, with production estimated at 725,000 tons, virtually unchanged from that of 1975. However, this is well below 1976's planned level of 1.08 million tons of sunflowers.

The problem of insufficient high-quality feed has affected all sectors of the Romanian livestock economy. Cattle production is currently the least profitable area of livestock production on State farms. In addition to problems of feed shortages, part of the difficulty reportedly stems from the breeds of cattle being raised. During its Five-Year Plan, Romania plans to import both dairy, dual purpose (Simmental), and beef cattle. While hog production has been quite profitable in some farm units, high prices of feed reportedly have made it less attractive.

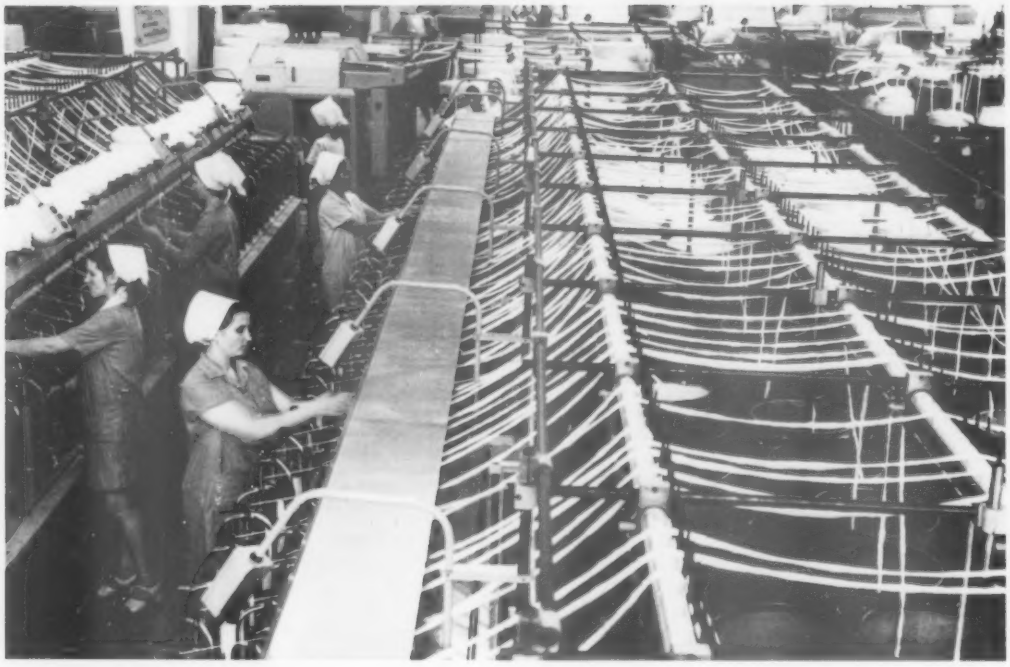
THE PROFITABILITY of different animals varies with the type of farm—State, cooperative, and private. For example, in many cooperatives, particularly those in hilly regions, sheep and poultry production is more profitable than that of hogs.

The current Five-Year Plan also calls for a major development in sheep output through increased production of fattened lambs and raising of sheep on pasture. To make lamb production more profitable in the hilly areas of Romania, the Plan calls for improving pastures, increasing irrigation, and introduction of new breed of sheep.

Romania's increased attention to sheep production may stem from its good market for lamb meat in the Middle East; these markets prefer fresh meat, giving Romania an advantage over traditional lamb-exporting countries such as New Zealand and Australia, which because of distance have supplied mostly frozen lamb to that area in the past.

Production of meat for export plays an important role in Romania. Meat to be exported is consigned to PRODEXPORT—which works on a commission basis—by the Meat Industry (Central), a part of the Ministry of Agriculture. Meat Industry (Central) purchases meat from State, cooperative, and private farms, allocating it to domestic and foreign markets.

While the quantity of meat to be exported is based on both the annual and the Five-Year Plans, some flexibility permits taking advantage of the world market situation. If pork prices are good, the amount of pork to be exported can be increased while the amount of beef exports can be decreased. As a result, very little meat is exported under long-term contracts. While the Romanians would prefer to export under long-term conditions, fluctuating prices of meat and currency hinder using these terms.



Far left, young Romanian shepherds. The country's new Five-Year Plan calls for major development in sheep output. Left, preparing cotton prior to spinning. Even with new goals, domestic output will account for only 5-7 percent of Romania's needs.

Owing to the European Community's embargo on beef exports, Romania's supply of beef available on the domestic market has increased and the country has been forced to look for other markets. While no absolute data could be obtained on meat exports in 1975, Romania has indicated that exports increased, with pork exports more than offsetting the decline in beef shipments, Meat exports for 1976 are expected to hold constant at the 1975 level, with no meat exports to the USSR planned.

Irrigation is another area slated for expansion by the new Five-Year Plan. In order to increase yields of agricultural commodities and stabilize their yearly fluctuations, irrigated land is to be expanded to 3 million hectares, compared with 1.4 million in 1974, and may reach 4 million hectares by 1990. One drawback to this plan, however, is increased salinization of the soil, a condition that now exists in over 500,000 hectares.

Romania's Five-Year Plan also will alter land use patterns. Corn and soybean area is expected to be expanded at the expense of that of wheat and sunflowers.

In order to better meet demand for agricultural commodities on both domestic and foreign markets, the new Five-Year Plan has scheduled an investment of roughly 135 billion lei (US$1 = 12 lei) into Romanian agriculture, either directly or indirectly.

However, agricultural development continues to be held back to permit more rapid development of other branches of the economy. Agriculture's earnings from the investment fund are still outweighed by its contributions. A similar situation also exists for exports and hard currency earnings—profits from agricultural exports are used to purchase industrial, rather than agricultural, equipment.

DESPITE AGRICULTURAL improvement programs scheduled by the Five-Year Plan, some areas still need development. Competing demands for land in Romania, along with allocation of land to other commodities, have made it highly unlikely that there will be large expansion in cotton plantings. The new Plan calls for production of raw cotton to average only 18,000-20,000 tons. While achievement of this goal would nearly double current output, domestic production would still account for only 5-7 percent of Romania's requirements.

Romania is currently involved, however, in a number of joint ventures in cotton production, particularly with the Central African Republic, Sudan, and Syria. Share of the joint venture is 51 percent for the host country and 49 percent for the Romanian partner. Payment to Romania is in cotton.

Another problem area is sorghum production—virtually all of the 20,000 hectares harvested is destined for forage, rather than for grain. Although potential for expanding sorghum area to 300,000 hectares exists, two problems keep yields low—aphid infestation and the need for early maturing varieties. Current varieties have a long growing season through the rainy months, and require artificial drying. Processing capacity is insufficient to meet current requirements for grain.

The present structure of Romanian agriculture is very disintegrated, basically consisting of State, cooperative, and private farms, along with agricultural mechanization stations. Production, processing, and marketing are handled by different organizations. As agricultural development occurs, these functions will become more vertically integrated.

Before a completely integrated agro-industrial unit can be established, however, these various organizations will have to accept some form of limited autonomy. This evolution is one of gradual change, and therefore is not expected to be completed by the end of the Plan.

—Based on report from
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Soviet-Egyptian Farm Trade Still Growing, Diversifying

By JOHN B. PARKER, JR.
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Economic Research Service

EGYPTIAN EXPORTS[1] to the Soviet Union are still increasing in value, although quantities of cotton and rice delivered in 1976 were far below the high levels recorded in 1970. Textiles, furniture, shoes, and various light manufactures accounted for a larger share of the export value—items shipped under a trade agreement providing for payment of Egypt's debt to the Soviet Union in the form of goods. However, agricultural exports to the Soviet Union are still sizable in volume and value and are becoming more widely diversified.

Soviet imports from Egypt increased from $353.6 million in 1973 to about $623 million in 1975, with agricultural imports rising from $147.6 million to $308 million during this period. Soviet exports to Egypt declined from $399 million in 1974 to $364 million in 1975. Industrial equipment, wood products, and metals have been the major Soviet exports to Egypt in recent years.

Soviet deliveries of farm products have dwindled since 1972 when poor crops created shortages in the USSR.

The Soviet Union sent about 4,000 tons of vegetable oils to Egypt in 1974 and a like amount in 1975—shipments that were down from much larger deliveries of sunflower oil in earlier years. Imports of Soviet tallow by Egypt exceeded 9,000 tons during both 1974 and 1975. Egyptian imports of Soviet dry milk and tobacco were each valued at less than $200,000 in 1975. The total value of Egyptian imports of Soviet agricultural products peaked in 1967 when 1 million tons of wheat (valued at $73 million) arrived. Egypt's imports of Soviet agricultural products declined from $80 million in 1967 to less than $10 million in 1975. In contrast, imports of U.S. farm products doubled during the period, rising to over $420 million.

The major flow in Soviet-Egyptian agricultural trade is out of Alexandria to receiving ports along the Black Sea and Leningrad. Egyptian deliveries of oranges, fresh vegetables, and agricultural raw materials used in Soviet industry showed a marked uptrend in the last decade. In 1975 and 1976, a rising demand for Egyptian oranges, onions, and selected fresh vegetables in Europe and the Mideast began to compete with exports to the Soviet Union. Strong domestic demand for Egypt's limited supply of cotton and rice had already curtailed deliveries of these two commodities to the Soviet Union, following Cairo's new export policies after 1973.

Soviet imports of cotton from Egypt declined from 122,700 tons valued at $158 million in 1965 to a low of 56,600 tons in 1974. A marked rise in world cotton prices pushed those for Egyptian extra-long staple cotton to record levels in 1974, and Japan and Western Europe made larger purchases when many textile manufacturers were concerned about shortages. As supplies in other exporting countries increased in 1975, Egypt's exports to Western Europe and Japan declined and shipments to the Soviet Union rose again to 68,500 tons. The value of Soviet purchases of Egyptian cotton reached $197.9 million in 1975, and a similar amount was scheduled for delivery in 1976.

Egypt delivered 30,000 tons of rice to the Soviet Union in 1976—down from 43,600 tons shipped in 1975 valued at $28.9 million. Soviet imports of Egyptian rice had reached a peak of 188,200 tons in 1970.

The value of Soviet imports of jasmine products from Egypt reached $29.6 million in 1975—up from only $1.5 million in 1969 when this trade began, and $13.2 million in 1974. Egyptian jasmine paste is used extensively in the growing Soviet perfume industry. Profits to Egyptian farmers who grow jasmine for export usually exceed $5,000 per hectare.

Oranges are another major export from Egypt to Russia in recent years. Egypt sold 147,793 tons of oranges to Soviet trading agencies in 1973 for about $27 million, but sales in 1974 and 1975 remained below 90,000 tons. Some of the Egyptian oranges loaded on Soviet ships are not sold in the shops in the Soviet Union, but apparently are used by crewmen or Soviet technical missions in other countries.

Egyptian exports of oranges are expected to continue upward, and the Soviet Union can be counted on as a major market in future years. During the last 2 years, Egypt was the second major source of Soviet imports of oranges, following Morocco. Egypt supplied about one-fourth of all Soviet imports of oranges in 1974 and 1975, and Morocco supplied about half.

Russian imports of fresh onions and garlic from Egypt declined from 49,386 tons in 1974 to only 29,183 tons in 1975 worth $8.7 million. Imports of other vegetables declined from 11,700 tons in 1974 to about 5,900 tons in 1975. In 1974, Egypt exported 3,226 tons of tomatoes to the Soviet Union worth about $1 million and 6,760 tons of watermelons for $1.3 million.

Some relatively new agricultural items included in Egypt's exports to the Soviet Union in 1974 included: Cut flowers, dehydrated onions, fresh pears, pomegranates, and wool (each exceeding $500,000 in value). Some less valuable new exports were fresh grapes, strawberries, and lemons. Egyptian exports of fruit juice to the USSR were considerable in 1974 and 1975, but declined in early 1976 as supplies were diverted to nearby Mideast markets.

SOVIET IMPORTS of peanuts from Egypt increased from 1,400 tons in 1974 to 2,300 tons for $2 million in 1975, but much smaller deliveries were scheduled for 1976. Egypt plans to import more peanuts from Sudan, switching from net exporter to net importer.

Egyptian deliveries of wine and beer to the Soviet Union absorbed much of Egypt's surplus production in the early 1970's, but rising demand from foreign tourists in Egypt prevented further growth in this trade in 1975. Soviet imports of alcoholic beverages from Egypt declined from $11.6 million in 1974 to $10.7 million in 1975, when rum accounted for over 80 percent of the value. Egyptian sales of rum, beer, and processed foods to Soviet trading agencies were scheduled to rise in 1976. Included in these sales are those to Soviet ships passing through the Suez Canal.

[1] **Egyptian export and USSR import data are used interchangably as available. Because shipments of most products are governed by bilateral agreements, these data generally agree.**

West German Feed Needs Will Rise Moderately

ALTHOUGH the slow rate of growth in West Germany's livestock numbers will hold down feed requirements during 1976/77, soybean meal demand is expected to move ahead at a slightly greater rate than mixed feed consumption, according to Turner L. Oyloe, U.S. Agricultural Attaché in Bonn.

The country's mixed feed consumption, which increased an estimated 14 percent in 1975/76, is projected to rise about 5 percent—from 12.7 million to almost 13.4 million metric tons—in 1976/77; soybean meal use is seen jumping about 6 percent—from 2.9 million to 3.1 million tons. Most of the soybean increase will be in cattle feeding, forecast to rise about 11 percent.

Exports of U.S. soybean oil, cake, and meal to West Germany during the first 2 months (October and November 1976) of the current marketing year totaled 137,169 million tons, up about 9 percent over those in the same period a year earlier. Totals for the complete 1975/76 year reached 1,008,495 tons—an increase of almost 12 percent over 1974/75's.

Because of very short supplies in roughage and forage, a greater demand for concentrates in cattle feeding should develop. Replacements are expected to be mostly in the form of purchased compounds containing oilseed cake and meal, dry beet pulp, molasses, other by-products and tapioca—but no grain, Oyloe reported.

The only significant change in West Germany's livestock and poultry inventories is a projected 4 percent increase in hog numbers. In line with the projected pork output for 1977 increased grain and protein consumption is in prospect The market for manufactured swine feed should reach about 5 million tons, according to Oyloe. Hog prices are expected to remain favorable enough to prevent an inventory drawdown in reaction to high feed prices.

Use of manufactured cattle feed containing 16 percent soybean meal rose 658,000 tons (27 percent) during October-June 1976, and 216,000 tons (24 percent) during the drought period of July-September. The 1976/77 forecast calls for about 4.5 million tons of cattle mixed feed consumption. Although complete information is lacking on roughage and forage supplies for the coming barn-feeding period, estimates point toward a 20 percent reduction compared with those of a year earlier.

The major advances in West Germany's estimated mixed feed consumption in 1975/76 occurred in feeds for cattle (up 26 percent) and hogs (up 19 percent).

Feed manufacturers predict cattle feed sales in 1976/77 will rise about 25 percent during October-May, but would drop about 30 percent during June-October, assuming normal grazing conditions. Projections foresee a total increase of about 8 percent for 1976/77. Little change is seen in the farmers' mix of dairy supplements—using homegrown grain plus purchased mixtures of soybean meal in bulk, Oyloe said.

The biggest advance in West Germany's soybean meal use in 1976/77 is predicted to occur in cattle feeding, which is expected to jump from 1.17 million to 1.3 million tons. The totals for hog feeding are projected upward from 1.03 million to 1.06 million tons—an increase of 3 percent.

Hog numbers in West Germany are projected to increase to 20,650,000 in 1977, while the cattle inventory is forecast at 14,450,000—or 61,000 head below the estimated 1976 total. The projected 1977 inventories of milk cows (5.4 million) bred sows (1.5 million), and laying hens (61.5 million) are close to the estimated 1976 levels.

EC MODIFIES BEEF IMPORT SYSTEM

A modified European Community (EC) beef import system, which will go into effect April 1, 1977, retains the variable levy system for beef imports, but adds to it a provision under which the percentage of the basic import levy applied would increase to as much as 114 percent when cattle prices fall below specified levels

The program, which was approved by the EC agricultural ministers on December 20, 1976, after months of deliberation, also terminates the current "linked purchase" system controlling beef imports as of April 1, when the more restrictive levy regulation goes into effect.

Under the variable levy system, the basic levy is calculated as the difference between the EC import price and the EC guide price. The new regulation provides that when internal prices fall to specified levels below the guide price, the percentage of the basic levy applied will increase, reaching a maximum of 144 percent when cattle prices fall below 90 percent of the guide price.

Under interim arrangements, the EC Council agreed to increase quantities of intervention beef offered for sale from January to March under the present system, which links beef imports to purchases of EC intervention beef stocks. Greater quantities of canned beef will be available out of intervention supplies during January, and a maximum of 20,000 tons of boneless beef will be offered during February and March. Boneless beef had previously not been available for purchase.

The Council approved maintaining the General Agreement on Tariffs and Trade (GATT) "levy-fare" quota for frozen beef and veal imports for 1977 at 38,500 tons, product weight. The allocation among importing member states was altered slightly, as the United Kingdom's share was increased from 12,150 tons in 1976 to 12,750 tons in 1977.

The Council also agreed to special import arrangements for up to 75,000 tons of beef for processing to be imported during April-December 1977. Of this total, 25,000 tons of beef for corning may be imported levy-free, and 50,000 tons of beef for processing can be imported subject to a levy equal to no more than 50 percent of the basic levy. The Community has not provided these special arrangements for manufacturing beef imports since the beef import embargo was imposed in 1974.

Wide-Ranging Credit System Helps Brazilian Farmers

By CHARLES J. SHELLARD
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THE "TAKEOFF" in Brazilian agriculture has resulted from a wide variety of stimuli. In addition to very strong world demand during the last 3 years, the Brazilian Government has begun to invest much more heavily in agriculture.

One of the most important inputs into the agriculture sector is credit. And, although such credit is not new, greater emphasis has been given to agricultural financing than in the past.

From a small start almost a century ago, Brazil's rural credit system has been expanded until it now covers nearly all segments of agriculture. Loans have grown rapidly in recent years and reached approximately $9 billion in 1975, up from $6.5 billion in 1974. They are expected to total $13.5 billion in 1976.

Help is availablie to farmers for many purposes such as to buy machinery and inputs and to build or improve farm structures. Changing its form and nature as required by existing conditions, the credit system is closely coordinated and reaches many of the country's most remote areas.

First steps toward the creation of an agricultural credit system were taken by the Brazilian Government in 1885 when short-term agricultural loans (*penhor agrícola*) were made available, secured by property, crops, or cattle. Subsequently, credit was made available in other forms and lending plans were improved, but no coordinated credit system was established until 1937.

In November of that year, the Government, operating through the Bank of Brazil—at that time a Government agency—set up the Department of Agricultural and Industrial Credit, known as CREAI. Functioning until November 1965, the Agency made loans to farmers for many activities.

During that period, other banks—both State and private—also had made agricultural loans. But in general, the country's banking facilities could only be called inadequate because financial assistance was available only to a small segment of the agricultural community.

In December 1964, the Brazilian Government began to take steps to widen credit availability and 1 year later the National System of Rural Credit (Sistema Nacional de Crédito Rural—SNCR) the current system, was created to replace the CREAI.

Objectives of the SNCR—as defined by law—are to stimulate and promote continuing development of the agricultural sector, including the establishment of storage and processing facilities, the commercialization of crop sales, and the industrialization of production.

The law states that all of the country's banks must participate in SNCR activities—not just the Bank of Brazil—and all of them must dispense SNCR funds. Lending of these monies is coordinated and controlled by the Central Bank (Banco Central), a Federal Government agency created in 1964 to handle Government operations previously performed by the Bank of Brazil—now no longer a Government entity. The law stipulates that member banks must provide low-interest credit, investing a fixed percentage (about 15 percent at this time) of their deposits in agricultural projects.

SNCR provides funds mostly to agricultural producers and cooperatives, but also to groups that render specialized services to the farm sector in the form of research and the production and improvement of seed.

SNCR funding of crop production begins with soil preparation and carries through harvesting, processing, and storage of the produce at the farm or cooperative levels. The loans for crop production are based on the level of the Government's support price, which periodically undergoes changes. SNCR also funds normal expenses of livestock production such as those related to breeding of all kinds of animals and poultry, including bees, silkworms, and fish.

When applying for an SNCR loan, borrowers must present a budget detailing planned expenditures. One requirement is that a part of the funds be earmarked for inputs such as fertilizers, pasture improvements, or some other activity that will increase the size of crops or improve livestock.

Normally, 15 percent of the loan must be earmarked for crop inputs and 7½ percent for livestock inputs, although, in some exceptional instances, this obligation is waived. Those loans made subject to the input requirement are called "complete" transactions; those not subject are called "simple" operations.

The Government is currently trying to boost the country's agricultural productivity by supplying credit for projects that would tend to increase output. It also provides special subsidies for purchase of fertilizers, innoculants, animal feeds, seed, and veterinary products. The Government supports aviation crop spraying, seeding, and aerial photography.

(The Government subsidy on chemical or mineral fertilizers in 1975 amounted to 40 percent of the cost.)

INVESTMENT credits are granted for the development of fixed and semifixed assets. To list just a few eligible projects, money will be loaned for such fixed-asset operations as building dams and sluices, electrifying farms, installing telephones, switching from annual to perennial crops, and making improvements in pastures and buildings.

Loans are also made for purchases of semifixed assets such as property not physically attached to the land—animals, farming and other types of equipment and machinery, vehicles, boats, and planes, for example.

Repayment periods for loans on semifixed assets run for up to 5 years; for fixed assets, 12 years. Credit is also available to agricultural producers or cooperatives for building, packing, storage, and transporting facilities and for insuring produce prior to its being marketed.

CREDIT is also available to promote the development of forestry. In general, the same rules apply here as for agriculture, although there are some differences. For example, owners of land, whether farmed or not, may apply for loans to finance forestry projects just to take advantage of Government tax breaks that help reduce the income tax paid by individuals, corporations, or cooperatives. The agricultural credit system also assists the

fishing industry by making loans to fishermen, and for erecting processing and storage facilities.

Special Government programs covering a wide range of activities also are eligible for SNCR loans. These are for land reclamation in the cerrado (savanna)—a large area of poor soils characterized by stunted plant life—to increase use of improved seed and lime, to upgrade pastures, to improve cattle herds, and for storage facilities, to mention a few.

One of these—a relatively new program referred to as POLOCENTRO—was set up in January 1975 to coordinate long-range investment plans for the cerrado. Its intent is to encourage farmers and others to undertake clearing operations, to improve cropland thus recovered, and to develop forests and improved pastures. This is a task of immense importance because the cerrado comprises a large share of the States of Minas Gerais, Mato Grosso, Goiás, and Bahia, which make up 20 percent of Brazil's land area.

This program also makes loans available for earthwork such as the erection of dams and irrigation facilities, for erosion prevention and control, drainage projects, fertilization, installation of communication systems, electrification, establishing transportation systems, and construction of storage facilities. Those receiving loans through the program are given technical assistance by Government experts and are obligated to follow their recommendations.

The National Lime Program (PROCAL) was established to make available to farmers funds with which to buy limestone to reduce the acidity of their fields, a common characteristic of much of Brazil's farmland. The program also provides information and data dealing with the need for liming, the correct amounts to use, and so forth.

The Program for the Purchase and Distribution of Seeds enables farmers in areas subjected to 1975's adverse weather conditions—especially in São Paulo, Paraná, Mato Grosso, and Minas Gerais—to obtain improved wheat, sorghum, and other seeds.

The Cattle Program's aim is to improve ranch productivity in the State of Rio Grande do Sul in the southeast and other cattle producing States in the southwest.

The Pastures Program has as its objectives the reclaiming of old pastures and the development of new ones, especially through the use of legumes. The Storage Program is intended to set up an infrastructure of warehouses, silos, and other facilities by 1980 at the farm and terminal levels.

There are also some agrarian reform and colonization projects that make available grants and loans to enable Brazilians to buy low cost land for development. There are other programs that enable them to receive land at no cost in some undeveloped areas, especially in the north and northeast regions of the country. Most of these programs originated in the past 5 years.

LOANS UNDER THE National Agricultural Credit System run from 6 months to 12 years. Interest rates are, according to Brazilian standards, relatively low, averaging 15 percent a year and in some cases dropping to 7 percent. By contrast, current loans made to industry bear an interest rate of as much as 30-36 percent a year.

The Agricultural Activities Guarantee Program—known as PROAGRO—went into effect in January 1975. Intended to protect the country's agricultural producers from losses to noteholding banks, the program insures the farmer against disasters to crops and property from heavy rains, drought, and other natural catastrophes.

PROAGRO derives its funds from a 1 percent surcharge added to the regular interest on loans, charging it to the producer. In the event PROAGRO losses are greater than the amount collected through the surcharge, the Government makes up the deficit.

Normally National Agricultural Credit System loans are secured by land, buildings, machinery, crops, or cattle. In some cases, relatively small loans for short periods are secured by bills of exchange.

Some of the monies used to finance the Brazilian agricultural credit system are derived from such non-Brazilian organizations as the U.S. Agency for International Development, from local currencies generated by resale in Brazil of U.S. agricultural commodities, from the Canadian Wheat Bank, Japanese banks, and other international credit organizations.

On the domestic level, funds are derived from Government loans, tax receipts, and from bank funds.

EC Sets Tobacco Import Quota At 60,000 Tons

The European Community Council on December 13, 1976, issued regulations setting the EC Generalized Special Preference (GSP) tariff quota for 1977.

The regulation provides for a 60,000-ton quota for unmanufactured Virginia-type (flue-cured) and a 2,500-ton quota for unmanufactured tobacco, other than Virginia, having a value of 280 units of account or more per 100 kilograms.

Quota imports from eligible developing countries are dutiable at about half the Common External Tariff (CXT) rates.

Imports within the 60,000-ton Virginia-type quota are allocated among EC members as follows: The United Kingdom, 34,900 tons; West Germany, 10,525; Belgium-Luxembourg, 5,700; Italy, 4,000; Ireland, 1,975; Denmark, 1,900; and France, 1,000.

The 2,500-ton "other" quota is not allocated. Indonesian cigar wrapper will probably fill most of this quota.

India, which fills most of the U.K. allocation, is the major beneficiary of the GSP. Brazil, the Philippines, South Korea, Thailand, Mozambique, and Angola are other major tobacco exporters benefiting from the GSP.

GSP imports are expected to fill about 11 percent of the EC's total unmanufactured tobacco imports in 1977, compared with about 4 percent of the total in 1974, the initial quota year.

The EC introduced its tobacco GSP in 1974 with a 22,000-ton quota covering only lower value (under 280 units of account per 100 kg) flue-cured. Since then, the quota has been successively enlarged, its preferential duty rate reduced, and its coverage extended to both value categories of the CXT.

The substantial increase in the quota for 1977 (the 1976 quota was 38,000 tons) was announced as part of the EC's Tropical Products Group offer in the Multilateral Trade Negotiations.

In a separate but related action, the EC Council extended through December 1977 the first stage in harmonization of EC cigarette excise taxes, which originally was scheduled to end June 30, 1975. The extension results from members' inability to agree on the rules for the second harmonization stage.

Ecuador To Up Imports Of U.S. Tobacco

By FRANCISCO SERRANO
Office of the U.S. Agricultural Attaché, Quito

ALTHOUGH ECUADOR'S imports of U.S. tobacco in 1976 were expected to double over those of 1975, the increase will come at the expense of cigarette imports, and changes in Ecuador's tobacco industry point toward a decline in tobacco imports in the years ahead.

These changes, which include a production shift from dark tobacco to blond and a 1975 ban on cigarette imports, could affect the United States, the principal supplier of imported cigarettes and tobacco to Ecuador. U.S. exports to Ecuador this year are expected to total 2,040 metric tons.

Since 1973, Ecuador has been attempting to produce an increasing percentage of the country's blond tobacco needs, primarily to save on foreign exchange. Before that time, Ecuador was an exporter of dark tobacco.

This type of tobacco was introduced over a hundred years ago, and for a number of years it was processed in a primitive fashion for self-consumption. Transition to commercial production began in 1892, when Ecuador's first cigarette manufacturing plant was established by El Progreso company in Guayaquil.

From that point until 1972, dark tobacco production followed an irregular upward trend. Since 1972, however, dark tobacco production has decreased sharply. Domestic use in 1975 was only 635 tons, and a further decline of 30 percent is projected by 1980. Any future growth in dark tobacco production will have to be based on increased export sales.

Blond tobacco production in Ecuador has a shorter history. In June 1966, El Progreso—together with the U.S. company Larus and Brothers and several other Ecuadorean firms—formed EALTCA to grow flue-cured and burley tobaccos. Production began in the Malacatos and La Ceiba districts in Loja Province, and by 1972, 80 hectares of blond tobacco were under cultivation in the two areas.

Production was subsequently expanded by another 60 hectares into the Chota Valley of Imabura Province. New areas of Chimborazo, Guayas, and Los Rios Provinces were developed, bringing total production area to roughly 350 hectares by mid-1976.

In 1972, another Ecuadorean company, TANASA, established the country's second cigarette manufacturing facility.

Ecuador's blond tobacco production in 1970 totaled just over 200 tons. However, a buildup in stocks caused a 47 percent drop in production in 1971 to 107 tons. After this point, production steadily increased and in 1975 totaled 690 tons.

In October 1974, the two companies proposed legislation to prohibit the import of cigarettes. In exchange, they offered to boost cigarette production to 70 percent of domestic demand by 1980, compared with 20 percent produced in 1975.

The Government of Ecuador accepted the industry's suggestion to prohibit cigarette imports, but has not yet issued the degree obligating an increase in domestic production to the level of the industry's proposal.

Nevertheless, the industry is making an intensive effort to achieve the 70 percent goal by 1980, since the obligation to do so could be imposed at any time. As a result, production of blond tobacco is expected to rise sharply from 690 tons in 1975 to 4,173 tons in 1980.

Ninety percent of the total investment for expansion costs was to originate from a special line of Government credit, with the balance supplied by contract producers.

After a mixed cigarette import situation throughout the 1960's, imports rose steadily in the 1970's to a record 97 million packs in 1974. The 1974 record was largely in anticipation of the import prohibition, which was imposed in mid-1975.

Authorizations to import cigarettes issued prior to the prohibition resulted in the import of 56.9 million packs in 1975 and the balance of a few million packs in 1976.

Meanwhile, sales of domestically produced flue-cured tobacco cigarettes, which rose only moderately between 1968 and 1973 (from 20 million to 28.3 million packs), started to climb as both of Ecuador's cigarette companies began producing a number of U.S. brands under royalty arrangements. By 1975, their combined output more than doubled to 95.8 million packs. Further growth to 150 million packs was projected for 1976.

Flue-cured tobacco imports for use in cigarette manufacture were expected to peak in 1976 at 2,268 tons.

Farmers in a well cultivated tobacco field in Vilcabamba, Ecuador.

Israel's 1976/77 Citrus Output, Exports To Be Slightly Down

ISRAEL's total citrus production for 1976/77 is expected to take a slight dip, as will total availability of fresh citrus for export. It took only one night of frost in March 1976 to cause serious losses to Israel's shamouti orange production—perhaps as much as 10 percent. However, increased production of valencias and other oranges will cushion the effect of what could have been a severe blow to Israel's citrus output.

Total citrus production in 1976/77 is expected to amount to about 1.4 million metric tons—4 percent less than the 1.459 million tons produced in 1975/76.

The greatest loss to the industry is the drop of shamouti production—Israel's dominant variety—to 57,000 tons, compared with 629,000 tons in 1975/76. All shamouti orange production in low elevations throughout Israel's main citrus belt was lost owing to a frost during last spring's flowering period. The decline in production could be worse if climatic conditions during the oncoming winter are less than adequate.

Outturns of valencia and navel oranges are both expected to rise in 1976/77 to 310,000 tons and 40,000 tons, respectively, from 288,000 tons and 38,000 tons, respectively, last year.

Grapefruit output in the coming year is unlikely to continue the record level of 445,000 tons achieved in 1975/76, since trees are subject to a slight biannual variation. The forecast is for a possible 420,000 tons. Lemon production, however, is also expected to rise moderately—8 percent—to 33,000 tons.

Assuming normal weather conditions this winter, the total availability of fresh citrus for export is expected to reach about 940,000 tons—roughly 3 percent less than in 1975/76. There will be less shamouti oranges available for shipment, but exports of other types of oranges will make up some of the decline.

No major changes in marketing strategy are expected in the 1976/77 season. The possibility of switching from weak currency markets such as the United Kingdom, France, and Italy are somewhat limited, since any "flooding" of strong currency countries with citrus will be self-defeating in terms of prices to be achieved.

In market developments in the 1975/76 season, foreign and domestic sales of citrus increased, while sales to processors continued to decline. Export sales in 1975/76 increased by 3.5 percent in quantity, but the average price—in terms of U.S. dollars per ton—remained the same.

Exports of all types of oranges increased, despite small quantities produced. While the quantity of shamouti oranges was at its lowest level in the past 7 years, quality was good and nearly 73 percent of the total quantity harvested was of prime export quality. Both late valencia oranges and grapefruit maintained excellent quality standards reached during recent years. However, a slump in grapefruit prices caused a 7-percent drop in quantity sold during the latter part of the export season.

THERE WERE no significant changes in the distribution of exports to major markets during the 1975/76 season. The United Kingdom and West Germany together accounted for 43 percent of all fruit sold abroad.

The 1975 trial shipments of oranges to Japan, on the other hand, did not fare so well and did not result in any full-scale commercial exports during 1976. Grapefruit exports to Japan declined to about half the 1974/75 level of 6,700 tons. The rather stringent Japanese phytosanitary requirements and mounting transportation costs may have had some influence on these developments.

The same situation is applicable to shipments of Israeli citrus to the United States. Exports practically disappeared in the 1975/76 season. Shipments to Canada, on the other hand, doubled and reached 5,900 tons, all of shamouti oranges.

Continuing the downtrend in the amount of citrus diverted to processing, Israel expects a drop in 1976/77, with the total available not more than 380,000 tons. The amount of oranges processed has plunged 63 percent since the 562,000-ton level in 1973/74 to the 209,000 tons expected to be processed in 1976/77. After 5 years of steady increases, grapefruit for processing is also expected to decline in 1976/77 to 156,000 tons, compared with the 172,000-ton peak of 1975/76.

As a consequence of decreasing amounts of oranges for processing, the availability of orange products from Israel in 1975/76 was sharply reduced and some processors began to import orange concentrates, primarily from Brazil. Indications are that these imports totaled 20,000 tons during the 1975/76 season.

Currently, production facilities are utilizing 50 percent or less of their capacity. Some processors are doubtful of their chances to continue in operation, particularly since the practice of mixing local products with imported concentrates could endanger tax concessions from the European Community (EC).

A large, but steadily decreasing, proportion of processed products is destined for exports, with most of the sales made in the EC. The processing industry is concerned that it may lose some of its old customers owing to supply problems—particularly as competition from the United States and Brazil increases.

Availability of Israeli processed citrus from the 1976/77 season will be roughly the same as that of last year. There are no significant carry-over stocks and processors will continue to be interested in offers of concentrates—especially orange concentrates—from abroad.

—Based on a dispatch from
ROGER F. PUTERBAUGH
U.S. Agricultural Attaché, Tel-Aviv

U.K. May Permit Use Of Nontobacco Materials

Cigarettes containing nontobacco materials—now banned in the United Kingdom—may become legal in that country.

Prime Minister James Callaghan is asking for legislation to permit modification of the existing law that requires all-tobacco cigarettes, and the U.K. tobacco industry is planning an introductory marketing program for cigarettes containing substitutes and additives.

U.K. Customs officials have proposed that the effective date of any revision in the nation's tobacco standards be set to coincide with the effective date (Jan. 1, 1978) of Britain's formal acceptance of the European Community's tobacco tax structure.

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Dairy Programs

Continued from page 5

280,000 tons of butter in 1976/77, compared with 255,000 in 1975/76, and to export a record 207,000 tons.

New Zealand uses the liquid skim milk produced with this butter for two products—casein and NFDM. Its production of NFDM in 1976/77 is seen declining from the 206,000 tons of 1975/76.

Australia and New Zealand—and especially New Zealand—are probably the lowest cost milk producers in the world. Observers have come back from New Zealand telling that the combination of almost year-round grazing, mild climate, and low land costs and labor efficiency is unbeatable. Dairying there, and in southeast Australia, is concentrated enough to support good marketing and processing and supply facilities. Milk production is considered a good and generally profitable use of resources.

Particularly in New Zealand, the stress is on milk production for manufacturing and export, rather than for fluid use. But in both countries, milk for fluid and related uses, called "town milk," is supplied by designated producers at premium prices.

In both countries, farmers deliver to their creameries, which are typically cooperatives, and receive preliminary payments. These payments reflect what the respective national marketing boards expect to realize from the export of the resulting product. The marketing boards, which are quasi-State corporations, are the sole exporters of the principal dairy products. They also authorize the preliminary payments for milk, which may differ for cheese plants, butter-powder plants, and butter-casein plants. In this way, the milk flow is allocated among competing uses.

These preliminary prices are supplemented by subsequent payments, so that it may be as long as 2 years before a farmer knows what he finally realized on a specific milk delivery.

Thus, the question, "What is the price of milk?" is not susceptible to a current answer. But complicated arithmetic indicates that in 1973/74 Australian farmers got approximately US$5 per 100 pounds of milk delivered to butter plants and about the same for cheese. New Zealand farmers in the same year received about US$3.50 for the fat contained in 100 pounds in milk delivered to butter plants, plus an allowance for the nonfat solids; cheese plants paid more, since their stated price included an allowance for the nonfat solids.

Because the town milk scheme is separate from that of manufacturing milk, the retail prices do not relate to farm prices of milk for manufacturing. For instance, the retail milk price in Canberra in early January 1977 was 37 U.S. cents per U.S. quart, while butter was about 91 cents a pound.

Export prices, as realized by the boards, are much lower than domestic prices. In 10 months ending in mid-1976, the New Zealand marketing board realized 44 cents per pound for butter, on an f.o.b. basis, and 41 cents for Cheddar cheese. Australian export prices were similar.

What the Australian and New Zealand systems boil down to is stabilization at a level related to the world price. From time to time, the respective governments must underwrite costs to their dairy boards for the expenses of holding inventory and/or making advance payments to farmers. The intent is that, in the course of a cycle from lean years to good years, the operations of these boards be essentially self-sustaining.

The feature of note about these dairy boards is that they are the sole export agents for industries that are strongly export-oriented. If a country's production were merely to supply domestic needs, or if competing exporters in the same country could skim the cream from selected export markets, this type of stabilization operation would not work.

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